

Harlan County Fiscal Court
Independent Auditors Report
For the Year Ended June 30, 2007

Gaw & Associates, PLLC
Certified Public Accountants

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Harlan County Fiscal Court

Executive Summary – Audit Examination of the Harlan County Fiscal Court

June 30, 2007

The Gaw & Associates, PLLC has completed the audit of the Harlan County Fiscal Court for fiscal year ended June 30, 2007. We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information.

Financial Condition:

The fiscal court had total net assets of \$30,702,318 as of June 30, 2007. The fiscal court had unrestricted net assets of \$2,781,617 in its governmental activities as of June 30, 2007, with total net assets of \$30,632,324. Total net cash and cash equivalents for the business-type activities were \$71,237 with total net assets of \$69,944.

Deposits:

The fiscal court deposits were insured and collateralized by bank securities.

Debt Obligations:

Total bonded debt principal as of June 30, 2007, was \$16,185,000. Future collections of \$26,623,281 are needed over the next thirty (30) years to pay all bonded debt principal and interest.

Report Comments:

- | | |
|---------|---|
| 2007-01 | The County should properly use purchase orders on all required expenditures |
| 2007-02 | The County should maintain its schedule of assets |
| 2007-03 | The County should obtain bids for all expenditures over \$20,000 |

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To the People of Kentucky

Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Joseph Grieshop, Harlan County Judge/Executive
Members of the Harlan County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Harlan County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Harlan County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Harlan County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Harlan County, Kentucky, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the modified cash basis of accounting.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Harlan County Fiscal Court
Independent Auditor's Report

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Harlan County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated September 24, 2008, on our consideration of Harlan County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

2007-01	The County should properly use purchase orders on all required expenditures
2007-02	The County should maintain its schedule of assets
2007-03	The County should obtain bids for all expenditures over \$20,000

Respectfully submitted,



Troy A. Gaw, CPA
Engagement Partner

Gaw & Associates, PLLC
September 24, 2008

Harlan County Fiscal Court
Harlan County Officials
For The Year Ended June 30, 2007

Fiscal Court Members:

Joseph A. Grieshop	County Judge/ Executive
Paul Caldwell	Magistrate
David Kennedy	Magistrate
Jimmy Roark	Magistrate
Jimmy Roddy	Magistrate
Chad Brock	Magistrate

Other Elected Officials:

Fred Busroe	County Attorney
Curt Stallard	Jailer
Wanda Clem	County Clerk
Paul Williams	Circuit Court Clerk
Marvin Lipfird	Sheriff
Felicia Wooten	Property Valuation Administrator
Phillip Bianchi	Coroner

Appointed Personnel:

Ryan Creech	County Treasurer
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P.O. BOX 956
HARLAN, KENTUCKY 40831

JOSEPH A. GRIESHOP
HARLAN COUNTY JUDGE EXECUTIVE

PHONE (606) 573-2600
FAX (606) 573-3522
TDD: 1-800-247-2510
(FOR HEARING IMPAIRED)

As financial management of the Harlan County Fiscal Court, we offer readers of these government-wide financial statements this narrative overview and analysis of the financial activities of the Fiscal Court for the fiscal year ended June 30, 2007. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant financial issues and activities and to identify any significant changes in our financial position. We encourage readers to consider the information presented here in conjunction with the government-wide financial statements as a whole.

Overview of the Government-wide Financial Statements

The County's basic financial statements, which consists of two government-wide and various fund financial statements, are designed to provide readers with a broad overview of the Fiscal Courts finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information government-wide on all County assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Fiscal Court is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities, result in increased net assets, which indicate an improved financial position.

The Statement of Activities presents information showing how a government's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event occurs, regardless of timing of related cash flows.

The fund financial statements consist of a balance sheet and a statement of revenues, expenditures and changes in fund balances. The fund financial statements focus on how money flows into and out of the funds. The fund balance at year-end shows what is available for spending in future periods. The reconciliation at the bottom of these statements shows how the government-wide statements, the statement of net assets, and the statement of activities differ from one another.

The notes to the financial statement provide additional information that is essential to a full understanding of the data provided in the basic government-wide financial statements.

Financial Highlights

The Statement of Net Assets shows the Fiscal Court has \$7,190,203 in current assets and \$39,645,608 in non-current assets. Current assets consist of cash and cash equivalents. Non-current assets consist of capital assets (land, land improvements, vehicles, buildings and equipment, infrastructure, etc.) net of depreciation; the liabilities of the Fiscal Court are current liabilities due within one year of \$460,000, and non-current liabilities due in more than one year of \$15,725,000. Net assets are \$30,702,268. From year to year, changes in net assets are an indicator of the Fiscal Court's financial position.

The Statement of Activities shows government-wide general revenues for the Harlan County Fiscal Court were \$4,109,399 for fiscal year 2007. The majority of revenues were property tax assessments and earnings on investments.

Management Discussion and Analysis

June 30, 2007

The fund financial statements show the inflow and outflow of cash receipts and cash expenditures. The change in fund balance of (\$490,764) shows that the Fiscal Court used all of its available current year revenues. Total revenues were \$14,598,700; operating expense and capital outlay were \$15,089,464. Expenditures exceeded revenues by \$490,764. Therefore, the Fiscal Court had a decrease in its fund balance.

Financial Analysis of the County as a Whole

Harlan County Net Assets - Governmental Activities

	<u>2006</u>	<u>2007</u>
Assets		
Cash and Cash Equivalents	\$ 7,788,188	\$ 7,286,407
Capital Assets	<u>39,524,784</u>	<u>39,645,608</u>
Total Assets	<u>\$ 47,312,972</u>	<u>\$ 46,932,015</u>
Liabilities		
Current Liabilities	\$ 450,000	\$ 460,000
Noncurrent Liabilities	<u>16,185,000</u>	<u>15,725,000</u>
Total Liabilities	<u>\$ 16,635,000</u>	<u>\$ 16,185,000</u>
Net Assets		
Invested in capital assets, Net of related debt	\$ 22,889,784	\$ 23,460,608
Restricted	-	-
Unrestricted	<u>7,788,188</u>	<u>7,286,407</u>
Total Net Assets	<u>\$ 29,937,192</u>	<u>\$ 30,747,015</u>

Management Discussion and Analysis

June 30, 2007

Harlan County Statement of Activities - Governmental Activities

	2006	2007
Program Revenues:		
Charges for Services	\$ 227,145	\$ 252,158
Operating Grants & Contributions	8,114,870	4,200,443
Capital Grants & Contributions	2,221,272	6,036,700
Total Program Revenues	<u>\$ 10,563,287</u>	<u>\$ 10,489,301</u>
General Revenues		
Taxes	3,322,517	3,858,645
Excess Fees	50,548	11,154
Miscellaneous Revenues	206,517	119,119
Accrued Interest Received	71,850	120,481
Total General Revenues	<u>3,651,432</u>	<u>4,109,399</u>
Total Revenues	<u>\$ 14,214,719</u>	<u>\$ 14,598,700</u>
Program Expenses		
General Government	4,007,994	3,591,745
Protection to Persons and Property	1,450,786	1,393,286
General Health and Sanitation	2,139,216	3,542,369
Social Services	210,167	87,720
Recreation and Culture	699,045	671,440
Roads	3,207,445	3,571,675
Airports	208,130	463,659
Interest on Long and Short Term Debt	727,248	1,240,203
Capital Projects	841,864	-
Total Expenses	<u>13,491,895</u>	<u>14,562,097</u>
Change in Net Assets	722,824	36,603
Net Assets - Beginning	<u>29,872,894</u>	<u>30,595,721</u>
Net Assets - Ending	<u><u>\$ 30,595,718</u></u>	<u><u>\$ 30,632,324</u></u>

Financial Analysis of the County's Funds

As noted earlier, Harlan County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds Overview

The focus of Harlan County governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The County has five major governmental funds. These are 1) general fund, 2) road and bridge fund, 3) LGEA fund, 4) HCDCC fund, and 5) LGED fund. There are six non-major funds, and they are A) Jail fund, B) State Grant fund, C) Federal Grant fund, D) HCDCCBS fund, E) E-911 fund, and F) HCJCCBS fund.

Management Discussion and Analysis

June 30, 2007

The General Fund is the chief operating fund of Harlan County. The Fiscal year began with a fund balance of \$2,327,815. During the fiscal year, the General fund had \$5,744,108 in revenues, \$4,233,919 in expenditures and (\$1,056,387) in transfers with an ending balance as of June 30, 2007 of \$2,781,617.

The Road and Bridge Fund is the fund related to county road and bridge construction and maintenance. The fiscal year began with a fund balance of \$20,187. During the fiscal year, the Road Fund had \$1,393,892 in revenues, \$2,045,008 in expenditures and \$706,064 in transfers with an ending balance of \$75,135.

The LGEA Fund is used to account for the operation of the County's Local Government Economic Assistance Program. The beginning balance was \$1,533,758. During the fiscal year, the LGEA Fund had \$2,672,689 in revenues and \$1,288,015 in expenditures and (\$1,271,642) in transfers with an ending balance of \$1,646,790.

The HCDCC Fund is used to account for the construction of the Harlan County Detention Center. The beginning balance was \$1,760,495. During the fiscal year, the HCDCC Fund had \$15,110 in revenues and \$1,773,495 in expenditures with an ending balance of \$2,110.

The LGED Fund is used to account for the operation of the County's Local Government Economic Development Program. The beginning balance was \$775,669. During the fiscal year, the LGED Fund had \$3,423,742 in revenues and \$2,906,655 in expenditures with an ending balance of \$1,292,756.

Non major funds overview:

The beginning balance (July 1, 2006) was \$1,118,010, the ending balance (June 30, 2007) showed \$1,349,159 in revenues, \$2,842,372 in expenditures, and \$1,621,965 in transfers with an ending balance of \$1,316,762.

Proprietary Funds Overview.

The County's proprietary fund statement provides the same type of information found in the business-type activities column of the government-wide statements, but in more detail.

The canteen jail fund had net assets of \$114,691 as of June 30, 2007 and a cash balance of \$71,237 as of June 30, 2007.

General Budgetary Highlights

The County's original budget was amended during the fiscal year increasing the operating budget by \$454,326. Budget amendments were made to all areas due to grants, surplus cash carried forward, increase in actual tax collections as opposed to projected collection.

Actual operating revenues were \$703,757 less than budgeted by Fiscal Court. This decrease was primarily from intergovernmental sources.

Actual operating expenditures were \$896,885 less than budgeted by Fiscal Court.

Capital Assets and Debt Administration

Capital Assets: Harlan County's investment in capital assets for its governmental and business type activities as of June 30, 2007, amount to \$39,645,608 (see note to Financial statement number 3). This investment in capital assets includes vehicles, road equipment, new county buildings and road projects.

Major capital asset events during the 2007-2008 fiscal year included purchase of sheriff's department vehicles, continued construction of new Justice Center, and construction of Detention Center.

Management Discussion and Analysis

June 30, 2007

Long-term debt at the end of the 2007-2008 fiscal year, Harlan County had total long term debt outstanding of \$16,185,000. The amount of this debt due within the next year is \$460,000 (see note to Financial statement number 4). This debt is for the Harlan County Detention Center construction and the Harlan County Justice Center construction.

Other matters. The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2007-2008 fiscal year budgets:

The 2007-2008 fiscal years Adopted Budget continues most services at current levels.

Programs cuts at the State and Federal level, particularly relating to the cost of housing prisoners, may have a negative impact on funding of county operations impacted by State revenue shortfalls.

The closing of the TL Bayne, Inc. factory that was under contract with the state to support a certain number of employees may have a negative impact on the county.

The county has agreed to provide \$120,000 to help offset operating costs for the Tri-city attractions.

The county has agreed to purchase bonds to complete water projects that will provide 95% of its residents access to drinking water.

Request for Information:

This financial report is designed to provide a general overview of Harlan County's financial position for all those with an interest in the government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to:

Ryan Creech
Harlan County Fiscal Court Treasurer
P.O. Box 479
Harlan, Kentucky 40831
606-573-4771

Harlan County Fiscal Court

Statement of Net Assets - Modified Cash Basis

As of June 30, 2007

ASSETS	Governmental Activities	Business-type Activities	Total
Current Assets			
Cash and cash equivalents	\$ 7,115,170	\$ 71,237	\$ 7,186,407
Notes receivable	100,000	-	100,000
Total current assets	<u>7,215,170</u>	<u>71,237</u>	<u>7,286,407</u>
Noncurrent Assets			
Capital assets	70,277,108	44,116	70,321,224
Less: Accumulated depreciation	(30,674,954)	(662)	(30,675,616)
Total noncurrent assets	<u>39,602,154</u>	<u>43,454</u>	<u>39,645,608</u>
Total assets	<u>\$ 46,817,324</u>	<u>\$ 114,691</u>	<u>\$ 46,932,015</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Current portion of bonds payable	460,000	-	460,000
Total current liabilities	<u>460,000</u>	<u>-</u>	<u>460,000</u>
Noncurrent Liabilities			
Bonds payable	15,725,000	-	15,725,000
Total noncurrent liabilities	<u>15,725,000</u>	<u>-</u>	<u>15,725,000</u>
Total liabilities	<u>\$ 16,185,000</u>	<u>\$ -</u>	<u>\$ 16,185,000</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 23,417,154	\$ 43,454	\$ 23,460,608
Restricted for:			
Special Revenue Funds	3,620,749	-	3,620,749
Capital Project Funds	2,110	-	2,110
Debt Service Funds	710,694	-	710,694
Unrestricted	2,881,617	71,237	2,952,854
Total net assets	<u>\$ 30,632,324</u>	<u>\$ 114,691</u>	<u>\$ 30,747,015</u>

The accompanying notes are an integral part of the financial statements.

Harlan County Fiscal Court

Statement of Activities - Modified Cash Basis

For the year ended June 30, 2007

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities							
General government	\$ 3,591,745	\$ -	\$ 1,921,587	\$ 135,808	\$ (1,534,350)	\$ -	\$ (1,534,350)
Protection to persons and property	1,393,286	-	226,553	-	(1,166,733)	-	(1,166,733)
General health and sanitation	3,542,369	-	-	2,953,140	(589,229)	-	(589,229)
Social services	87,720	-	-	-	(87,720)	-	(87,720)
Recreation and culture	671,440	252,158	-	639,976	220,694	-	220,694
Roads	3,571,675	-	1,381,293	-	(2,190,382)	-	(2,190,382)
Airports	463,659	-	-	-	(463,659)	-	(463,659)
Interest on long and short-term debt	1,240,203	-	671,010	349,168	(220,025)	-	(220,025)
Capital projects	-	-	-	1,958,608	1,958,608	-	1,958,608
Total governmental activities	14,562,097	252,158	4,200,443	6,036,700	(4,072,796)	-	(4,072,796)
Business-type Activities							
Jail canteen	190,364	219,661	-	-	-	29,297	29,297
Total business-type activities	190,364	219,661	-	-	-	29,297	29,297
Total primary government	\$ 14,752,461	\$ 471,819	\$ 4,200,443	\$ 6,036,700	\$ (4,072,796)	\$ 29,297	\$ (4,043,499)

General Revenues

Taxes:

Taxes	\$ 3,858,645	\$ -	\$ 3,858,645
Excess fees	11,154	-	11,154
Earnings on investments	120,481	3,140	123,621
Miscellaneous revenues	119,119	-	119,119
Total General Revenues	4,109,399	3,140	4,112,539
Change in net assets	36,603	32,437	69,040
Net assets - beginning	30,595,721	82,254	30,677,975
Net assets - ending	\$ 30,632,324	\$ 114,691	\$ 30,747,015

The accompanying notes are an integral part of the financial statements.

Harlan County Fiscal Court

Balance Sheet - Modified Cash Basis

As of June 30, 2007

	General Fund	Road and Bridge Fund	Local Government Economic Assistance Fund	Harlan County Detention Center Construction Fund	Local Government Economic Development Fund	Nonmajor Funds	Total Governmental Funds
Assets							
Cash and cash equivalents	\$ 2,781,617	\$ 75,135	\$1,646,790	\$ 2,110	\$ 1,292,756	\$ 1,316,762	\$ 7,115,170
Total assets	<u>\$ 2,781,617</u>	<u>\$ 75,135</u>	<u>\$1,646,790</u>	<u>\$ 2,110</u>	<u>\$ 1,292,756</u>	<u>\$ 1,316,762</u>	<u>\$ 7,115,170</u>
Fund Balances							
Unreserved:							
Designated							
General fund type	\$ 2,781,617	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,781,617
Special Revenue Funds	-	75,135	1,646,790	-	1,292,756	606,068	3,620,749
Capital Project Funds	-	-	-	2,110	-	-	2,110
Debt Service Funds	-	-	-	-	-	710,694	710,694
Total fund balances	<u>\$ 2,781,617</u>	<u>\$ 75,135</u>	<u>\$1,646,790</u>	<u>\$ 2,110</u>	<u>\$ 1,292,756</u>	<u>\$ 1,316,762</u>	<u>\$ 7,115,170</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 7,115,170
Amounts Reported for Government Activities in the Statement of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in Funds	70,277,108
Accumulated Depreciation	(30,674,954)
Notes Receivable in The Statement of Net Assets Are Not Current Financial Sources and Therefore Are Not Reported as Assets in Governmental Funds.	100,000
Long-term Liabilities, Including Bonds Payable, Are Not Due and in the Current Period and Therefore Are Not Reported in the Funds.	(16,185,000)
Net Assets of Governmental Activities	<u>\$ 30,632,324</u>

The accompanying notes are an integral part of the financial statements.

Statement of Revenues, Expenditures, & Changes in Fund Balance - Modified Cash Basis

For the year ended June 30, 2007

			Local Government Economic Assistance Fund	Harlan County Detention Center Construction Fund	Local Government Economic Development Fund	Nonmajor Funds	Total Governmental Funds
Revenues	General Fund	Road and Bridge Fund					
Taxes	\$ 3,501,677	\$ -	\$ -	\$ -	\$ -	\$ 356,938	\$ 3,858,615
In lieu tax payments	30	-	-	-	-	-	30
Excess fees	11,154	-	-	-	-	-	11,154
Intergovernmental	1,921,587	1,381,293	2,612,958	-	3,423,742	897,563	10,237,143
Charges for services	180,733	-	-	-	-	71,425	252,158
Miscellaneous	83,860	4,320	28,904	-	-	2,035	119,119
Interest	45,067	8,279	30,827	15,110	-	21,198	120,481
Total revenues	5,744,108	1,393,892	2,672,689	15,110	3,423,742	1,349,159	14,598,700
Expenditures							
General government	1,998,780	-	74,054	-	-	-	2,072,834
Protection to persons and property	21,943	-	83,502	-	24,205	1,244,355	1,374,005
General health and sanitation	582,243	-	389,653	-	2,563,487	-	3,535,383
Social services	11,315	-	-	-	74,079	-	85,394
Parks and recreation	-	-	571,200	-	68,776	-	639,976
Roads	-	1,764,669	-	-	-	-	1,764,669
Airports	463,655	-	-	-	-	-	463,655
Debt service	132,034	-	33,798	-	-	1,175,203	1,341,035
Capital projects	19,191	-	-	1,773,495	176,108	132,855	2,101,649
Administration	1,004,758	280,339	135,808	-	-	289,959	1,710,864
Total expenditures	4,233,919	2,045,008	1,288,015	1,773,495	2,906,655	2,842,372	15,089,464
Excess (deficit) of revenues over expenditures	1,510,189	(651,116)	1,384,674	(1,758,385)	517,087	(1,493,213)	(490,764)
Other Financing Sources (Uses)							
Operating transfers in	-	706,064	-	-	-	1,621,965	2,328,029
Operating transfers out	(1,056,387)	-	(1,271,642)	-	-	-	(2,328,029)
Total other financing sources (uses)	(1,056,387)	706,064	(1,271,642)	-	-	1,621,965	-
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	453,802	54,948	113,032	(1,758,385)	517,087	128,752	(490,764)
Fund balance - Beginning	2,327,815	20,187	1,533,758	1,760,495	775,669	1,188,010	7,605,934
Fund balance - Ending	\$ 2,781,617	\$ 75,135	\$ 1,646,790	\$ 2,110	\$ 1,292,756	\$ 1,316,762	\$ 7,115,170

The accompanying notes are an integral part of the financial statements.

Harlan County Fiscal Court

**Reconciliation of The Statement of Revenues, Expenditures, & Changes in Fund Balance of
Governmental Funds To The Statement of Activities - Modified Cash Basis**

For the year ended June 30, 2007

Net change in fund balances--total governmental funds	\$	(490,764)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital Outlay	2,215,871
Depreciation Expense	(2,120,612)
Assets disposed of, net book value	(17,889)
Rounding	(3)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Bond Principal Payments	<u>450,000</u>
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Change in net assets of governmental activities	<u>\$</u>	<u>36,603</u>
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Harlan County Fiscal Court

Statement of Fund Net Assets - Proprietary Fund - Modified Cash Basis

As of June 30, 2007

ASSETS	<u>Jail Canteen Fund</u>
Current Assets	
Cash and cash equivalents	<u>\$ 71,237</u>
Total current assets	<u> 71,237</u>
Noncurrent Assets	
Land	-
Vehicles and equipment	44,116
Less: Accumulated depreciation	<u>(662)</u>
Total noncurrent assets	<u> 43,454</u>
Total assets	<u><u>\$ 114,691</u></u>
NET ASSETS	
Invested in capital assets, net of related debt	\$ 43,454
Restricted for:	
Capital projects	-
Other	-
Unrestricted	<u> 71,237</u>
Total net assets	<u><u>\$ 114,691</u></u>

Harlan County Fiscal Court

Statement of Revenues, Expenses, & Changes in Fund

Balance - Proprietary Fund - Modified Cash Basis

For the year ended June 30, 2007

	Jail Canteen Fund
Operating Revenues	
Canteen receipts	\$ 201,055
Fees assessed	18,606
Total operating revenues	<u>219,661</u>
Operating Expenses	
Cost of sales	155,449
Equipment and Equipment Repair	6,530
Educational and recreational	5,714
Personnel costs	14,369
Depreciation	662
Miscellaneous	981
Utilities	6,659
Total operating expenses	<u>190,364</u>
Operating income (loss)	<u>29,297</u>
Nonoperating revenues (expenses)	
Interest income	3,140
Total nonoperating revenues (expenses)	<u>3,140</u>
Net income (loss)	<u>32,437</u>
Total net assets - Beginning	<u>82,254</u>
Total net assets - Ending	<u><u>\$ 114,691</u></u>

The accompanying notes are an integral part of the financial statements.

Harlan County Fiscal Court

Statement of Cash Flows - Proprietary Fund - Modified Cash Basis

For the year ended June 30, 2007

	<u>Jail Canteen Fund</u>
Cash Flows from Operating Activities	
Receipts from customers	\$ 219,661
Cost of sales	(154,787)
Equipment and Equipment Repair	(6,530)
Educational and recreational	(5,714)
Personnel costs	(14,369)
Depreciation	(662)
Miscellaneous	(981)
Utilities	(6,659)
Net cash from operating activities	<u>29,959</u>
Cash Flows from Capital Financing Activities	
Acquisition of capital assets	(44,116)
Net cash from capital financing activities	<u>(44,116)</u>
Cash Flows from Investing Activities	
Interest on investments	3,140
Net cash flows from investing activities	<u>3,140</u>
Net increase in cash and cash equivalents	(11,017)
Cash and cash equivalents - beginning	82,254
Cash and cash equivalents - ending	<u>\$ 71,237</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating income (loss)	\$ 29,297
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Depreciation	662
Net Cash Provided by Operating Activities	<u>\$ 29,959</u>

Harlan County Fiscal Court

Statement of Fiduciary Net Assets - Fiduciary Fund - Modified Cash Basis

As of June 30, 2007

	Agency Funds				
	State of Kentucky and Harlan County Escrow Fund	Clover Fork Nonstructural Flood Project Fund	Harlan County Nonstructural Flood Project	Louellen / Closplint Sewer Project	Total
Assets					
Cash and cash equivalents	\$ 43,016	\$ 85,495	\$ 99,040	\$ 225,642	\$ 453,193
Total assets	<u>\$ 43,016</u>	<u>\$ 85,495</u>	<u>\$ 99,040</u>	<u>\$ 225,642</u>	<u>\$ 453,193</u>
LIABILITIES					
Liabilities					
Amounts held in custody for others	\$ 43,016	\$ 85,495	\$ 99,040	\$ 225,642	\$ 453,193
Total liabilities	<u>\$ 43,016</u>	<u>\$ 85,495</u>	<u>\$ 99,040</u>	<u>\$ 225,642</u>	<u>\$ 453,193</u>

The accompanying notes are an integral part of the financial statements.

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

Reporting Entity

The financial statements of Harlan County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government.

Blended Component Unit

The following legally separate organization provide it's services exclusively to the primary government and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

Harlan County Justice Center Expansion Corporation

The Harlan County Fiscal Court has to approve the issue of bonded debt for the Justice Center Expansion Corporation; therefore, the Justice Center Expansion Corporation is fiscally dependent. In addition, the Fiscal Court leases the justice center from the Justice Center Expansion Corporation for the amount of the bond payments. Financial information for the Justice Center Expansion Corporation is blended within Harlan County Fiscal Court's financial statements.

Harlan County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Harlan County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Harlan County, Kentucky.

Circuit Court Clerk
County Attorney
Property Valuation Administrator
County Clerk
County Sheriff

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories:

- 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets;
- 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and
- 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include:

- 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function;
- 2) operating grants and contributions; and
- 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Harlan County Fiscal Court
Notes to Financial Statements
June 30, 2007

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road and Bridge Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund - This fund is used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Harlan County Detention Center Construction Fund – (HCDCC Fund) – this fund is used to account for the construction of the Harlan County Detention Center.

Harlan County Detention Center Bond Sinking Fund – (HDCBS Fund) – this fund is used to account for the debt service of the Harlan County Detention Center.

Local Government Economic Development Fund - This fund is used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

The primary government also has the following non-major funds: Jail Fund, State Grant Fund, Federal Grant Fund, E-911 Fund and Harlan County Justice Center Corporation Bond Sinking Fund (HCJCCBS Fund) and HDCBS Fund.

Special Revenue Funds:

The Road and Bridge Fund, Local Government Economic Assistance Fund, Local Government Economic Development Fund, Jail Fund, State Grant Fund, Federal Grant Fund and E-911 Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The Harlan County Detention Center Construction Fund is used to account for the construction of the Detention Center.

Debt Service Fund:

The Harlan County Detention Center Bond Sinking Fund and Harlan County Justice Center Corporation Bond Sinking Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Proprietary Funds

Proprietary fund distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise fund are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary funds:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds:

The County accounts for activities of escrowed funds and others in a custodial capacity in agency funds.

Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life Years
Land Improvements	\$ 25,000	10-60
Buildings	50,000	10-75
Building Improvements	50,000	10-40
Machinery and Equipment	5,000	3-25
Infrastructure	30,000	10-50
Intangibles	5,000	2-40
Vehicles	5,000	5

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Related Organizations, Joint Venture, and Jointly Governed Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Harlan County Fiscal Court: Black Mountain Water District.

Note 2. Deposits and Investments

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

Harlan County Fiscal Court
Notes to Financial Statements
June 30, 2007

Primary Government Governmental Activities	Reporting Entity			Balance June 30, 2007
	Balance July 1, 2006	Additions	Deductions	
Vehicles & Equipment	\$ 2,115,687	\$ 46,452	\$ 178,885	\$ 1,983,254
Land	1,569,594	-	-	1,569,594
Other Equipment	252,100	44,664	-	296,764
Buildings and improvements	13,176,524	-	-	13,176,524
Infrastructure	44,826,795	218,405	-	45,045,200
Construction in progress	6,299,422	1,906,350	-	8,205,772
Totals at historical cost	<u>68,240,122</u>	<u>2,215,871</u>	<u>178,885</u>	<u>70,277,108</u>
Less: accumulated depreciation				
Vehicles & Equipment	1,488,147	137,225	160,996	1,464,376
Other Equipment	45,378	49,438	-	94,816
Buildings and improvements	2,100,480	226,489	-	2,326,969
Infrastructure	25,081,333	1,707,460	-	26,788,793
Total accumulated depreciation	<u>28,715,338</u>	<u>2,120,612</u>	<u>160,996</u>	<u>30,674,954</u>
Governmental Activities Capital Assets - Net	<u>\$ 39,524,784</u>	<u>\$ 95,259</u>	<u>\$ 17,889</u>	<u>\$ 39,602,154</u>
<u>Business-Type Activities</u>				
Jail Canteen	\$ 23,061	\$ 44,116	\$ 23,061	\$ 44,116
Totals at historical cost	<u>23,061</u>	<u>44,116</u>	<u>23,061</u>	<u>44,116</u>
Less: accumulated depreciation				
Jail Canteen	\$ 23,061	\$ 662	\$ 23,061	\$ 662
Total accumulated depreciation	<u>23,061</u>	<u>662</u>	<u>23,061</u>	<u>662</u>
Business-Type Activities Capital Assets - Net	<u>\$ -</u>	<u>\$ 43,454</u>	<u>\$ -</u>	<u>\$ 43,454</u>

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities

General Government	\$ 201,879
Protection to Persons & Property	47,845
General Health and Sanitation	6,986
Recreation and Culture	2,326
Social Services	31,464
Roads, Including General Infrastructure Assets	<u>1,830,112</u>

Total Depreciation Expense - Governmental Activities	<u>\$ 2,120,612</u>
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Business Type Activities

Jail Canteen	<u>\$ 662</u>
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Total Depreciaion Expense - Business-Type Activities	<u>\$ 662</u>
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Note 4. Long-term Debt

A. Revenue Bonds – Detention Facility Fund

On September 1, 2004, the Harlan County Fiscal Court issued \$6,000,000 in Revenue bonds for the completion of construction on the Harlan County Detention Center.

The bonds require two semiannual interest payments be made on March 1 and September 1 of each year beginning March 1, 2006. One principal payment is due on March 1 of each year beginning March 1, 2006. Bonds will mature September 1, 2034. As of June 30, 2007, the principal amount outstanding was \$5,885,000.

B. Revenue Bonds – Detention Facility Fund

On May 1, 2006, the Harlan County Fiscal Court issued \$2,350,000 in Revenue bonds for the completion of construction on the Harlan County Detention Center.

The bonds require two semiannual interest payments be made on March 1 and September 1 of each year beginning September 1, 2006. One principal payment is due on March 1 of each year beginning March 1, 2006. Bonds will mature September 1, 2035. As of June 30, 2007, the principal amount outstanding was \$2,310,000.

C. Revenue Bonds – Justice Center Fund

On July 16, 2002, the Harlan County Public Properties Corporation issued Revenue bonds for the completion of construction on the Harlan, Kentucky Justice Center. Further, a lease agreement was entered into by the Harlan County, Kentucky Justice Center Corporation and the Administrative Office of the Courts of the Commonwealth of Kentucky (AOC), in which the AOC agrees to pay the bonds over their amortizable life.

The bonds require two semiannual interest payments be made on January 1 and July 1 of each year beginning January 1, 2005. One principal payment is due on July 1 of each year beginning July 1, 2006. Bonds will mature July 1, 2025. As of June 30, 2007, the principal amount outstanding was \$7,990,000.

The following is a schedule of future minimum payments as of June 30, 2007:

Harlan County Fiscal Court
Notes to Financial Statements
June 30, 2007

Year Ending June 30,	Harlan Co. Fiscal Court		
	Interest	Principal	Total
2008	716,746	460,000	1,176,746
2009	700,584	475,000	1,175,584
2010	683,821	495,000	1,178,821
2011	665,778	515,000	1,180,778
2012	646,040	535,000	1,181,040
2013-2017	2,884,069	3,025,000	5,909,069
2018-2022	2,163,333	3,755,000	5,918,333
2023-2027	1,218,783	3,390,000	4,608,783
2028-2032	627,364	1,955,000	2,582,364
2033-2037	131,763	1,580,000	1,711,763
	<u>\$ 10,438,281</u>	<u>\$ 16,185,000</u>	<u>\$ 26,623,281</u>

D. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2007, was as follows:

Description	Original Issue	Principal Balance 7/1/2006	Debt Issued	Debt Paid	Principal Balance 6/30/2007	Due Within One Year
BONDS:						
Justice Center Bond						
Series 2002	Jul-25	\$ 8,285,000	\$ -	\$ 295,000	\$ 7,990,000	\$ 305,000
Detention Center Bond						
Series 2005 A	Sep-34	6,000,000	-	115,000	5,885,000	115,000
Detention Center Bond						
Series 2005 B	Sep-35	2,350,000	-	40,000	2,310,000	40,000
		<u>\$ 16,635,000</u>	<u>\$ -</u>	<u>\$ 450,000</u>	<u>\$ 16,185,000</u>	<u>\$ 460,000</u>

Note 5. Interest On Long-term Debt and Financing Obligations

Interest paid on Debt Service on the Statement of Activities was \$1,240,203.

Harlan County Fiscal Court
Notes to Financial Statements

June 30, 2007

Note 6. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 25.01 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. Insurance

For the fiscal year ended June 30, 2007, Harlan County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Estimated Infrastructure Historical Cost

Historical cost of infrastructure placed in service prior to the fiscal year ended June 30, 2003 (year of GASB 34 implementation) is an estimate. For those assets, the primary governmental estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. The estimate was used to calculate the infrastructure historical cost by determining current year construction cost and deflating it back to the estimated year of construction or reconstruction. Estimated infrastructure historical cost includes infrastructure placed in service from fiscal year 1984 through the current fiscal year. All infrastructure assets placed in service during the fiscal year ended June 30, 2003, and thereafter are recorded at actual historical cost.

Note 9. Subsequent Events

In the period after the financial statement date TL Bayne, Inc. a furniture retailer closed its operation of business in Harlan, Kentucky. This is significant because the company was under contract with the state to provide 75 jobs in the area. If the jobs were not provided by the company then a penalty will be assessed. This penalty could be assessed on the county as well as the business. If this penalty is assessed it could be material to the financial statements. As of the date of this report any penalty is not measurable.

Harlan County Fiscal Court
Budgetary Comparison Schedules
Required Supplementary Information – Modified Cash Basis
For The Year Ended June 30, 2007

Harlan County Fiscal Court

Budgetary Comparison Schedules

Required Supplementary Information - Modified Cash Basis

For the year ended June 30, 2007

	General Fund			Variance with Final Budget Favorable (Unfavorable)
	Budgeted Amounts		Actual Budget Basis	
	Original	Final		
Revenues				
From local sources				
Taxes	\$ 2,501,000	\$ 2,572,200	\$ 3,501,677	\$ 929,477
In lieu tax payments	25	25	30	5
Excess fees	27,500	27,500	11,154	(16,346)
Intergovernmental	1,848,350	2,211,726	1,921,587	(290,139)
Charges for services	127,000	146,750	180,733	33,983
Miscellaneous	57,150	57,150	83,860	26,710
Interest	25,000	25,000	45,067	20,067
Total revenues	4,586,025	5,040,351	5,744,108	703,757
Expenditures				
General government	2,146,094	2,225,236	1,998,780	226,456
Protection to persons and property	31,687	42,487	21,943	20,544
General health and sanitation	370,177	777,682	582,243	195,439
Social services	-	12,000	11,315	685
Airports	550,000	560,200	463,655	96,545
Debt service	40,367	132,967	132,034	933
Capital projects	300,000	300,000	19,191	280,809
Administration	1,238,153	1,080,232	1,004,758	75,474
Total expenditures	4,676,478	5,130,804	4,233,919	896,885
Excess (deficit) of revenues over expenditures before other financing sources (uses)	(90,453)	(90,453)	1,510,189	1,600,642
Other Financing Sources (Uses)				
Operating transfers out	(1,160,281)	(1,160,281)	(1,056,387)	103,894
Total other financing sources (uses)	(1,160,281)	(1,160,281)	(1,056,387)	103,894
Net Changes in Fund Balance	(1,250,734)	(1,250,734)	453,802	1,704,536
Fund balance - Beginning	1,250,734	1,250,734	2,327,815	1,077,081
Fund balance - Ending	-	-	2,781,617	2,781,617

Harlan County Fiscal Court

Budgetary Comparison Schedules

Required Supplementary Information - Modified Cash Basis

For the year ended June 30, 2007

	Road and Bridge Fund		
	Budgeted Amounts		Variance
	Original	Final	with Final Budget Favorable (Unfavorable)
Revenues			
From local sources			
Intergovernmental	\$ 1,155,370	\$ 1,557,660	\$ 1,381,293
Miscellaneous	-	-	4,320
Interest	5,000	5,000	8,279
Total revenues	<u>1,160,370</u>	<u>1,562,660</u>	<u>1,393,892</u>
Expenditures			
Roads	1,432,895	1,988,105	1,764,669
Administration	500,945	348,025	280,339
Total expenditures	<u>1,933,840</u>	<u>2,336,130</u>	<u>2,045,008</u>
Excess (deficit) of revenues over expenditures before other financing sources (uses)	<u>(773,470)</u>	<u>(773,470)</u>	<u>(651,116)</u>
Other Financing Sources (Uses)			
Operating transfers in	773,470	773,470	706,064
Operating transfers out	-	-	-
Total other financing sources (uses)	<u>773,470</u>	<u>773,470</u>	<u>706,064</u>
Net Changes in Fund Balance	-	-	54,948
Fund balance - Beginning	-	-	20,187
Fund balance - Ending	<u>-</u>	<u>-</u>	<u>75,135</u>

Harlan County Fiscal Court

Budgetary Comparison Schedules

Required Supplementary Information - Modified Cash Basis

For the year ended June 30, 2007

	LGEA Fund		
	Budgeted Amounts		Variance with Final Budget
	Original	Final	Favorable (Unfavorable)
Revenues			
From local sources			
Intergovernmental	\$ 2,050,000	\$ 2,160,000	\$ 2,612,958
Miscellaneous	-	28,905	28,904
Interest	15,000	15,000	30,827
Total revenues	<u>2,065,000</u>	<u>2,203,905</u>	<u>2,672,689</u>
Expenditures			
General government	60,000	80,000	74,054
Protection to persons and property	50,000	84,905	83,502
General health and sanitation	334,500	481,900	389,653
Social services	-	-	-
Parks and recreation	545,000	611,000	571,200
Debt service	34,000	34,000	33,798
Capital projects	-	-	-
Administration	328,600	244,600	135,808
Total expenditures	<u>1,352,100</u>	<u>1,536,405</u>	<u>1,288,015</u>
Excess (deficit) of revenues over expenditures before other financing sources (uses)	<u>712,900</u>	<u>667,500</u>	<u>1,384,674</u>
Other Financing Sources (Uses)			
Operating transfers out	(1,462,900)	(1,462,900)	(1,271,642)
Total other financing sources (uses)	<u>(1,462,900)</u>	<u>(1,462,900)</u>	<u>(1,271,642)</u>
Net Changes in Fund Balance	<u>(750,000)</u>	<u>(795,400)</u>	<u>113,032</u>
Fund balance - Beginning	<u>750,000</u>	<u>795,400</u>	<u>1,533,758</u>
Fund balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,646,790</u>

Harlan County Fiscal Court

Budgetary Comparison Schedules

Required Supplementary Information - Modified Cash Basis

For the year ended June 30, 2007

	LGED Fund		
	Budgeted Amounts		Variance with Final Budget
	Original	Final	Favorable (Unfavorable)
Revenues			
From local sources			
Intergovernmental	\$ 982,000	\$ 5,601,831	\$ 3,423,742
Total revenues	<u>982,000</u>	<u>5,601,831</u>	<u>3,423,742</u>
Expenditures			
Protection to persons and property	50,000	166,500	24,205
General health and sanitation	860,000	5,311,000	2,563,487
Social services	-	109,000	74,079
Parks and recreation	37,000	241,000	68,776
Debt service	-	350,000	-
Capital projects	80,000	200,000	176,108
Total expenditures	<u>1,027,000</u>	<u>6,377,500</u>	<u>2,906,655</u>
Excess (deficit) of revenues over expenditures before other financing sources (uses)	<u>(45,000)</u>	<u>(775,669)</u>	<u>517,087</u>
Other Financing Sources (Uses)			
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Changes in Fund Balance	<u>(45,000)</u>	<u>(775,669)</u>	<u>517,087</u>
Fund balance - Beginning	<u>45,000</u>	<u>775,669</u>	<u>775,669</u>
Fund balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,292,756</u>

Harlan County Fiscal Court

Notes to Required Supplementary Information

June 30, 2007

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Harlan County Fiscal Court
Other Supplementary Information – Modified Cash Basis
June 30, 2007

Harlan County Fiscal Court

Combining Balance Sheet - Nonmajor Governmental Funds - Modified Cash Basis

For the year ended June 30, 2007

	Jail Fund	State Grants Fund	Federal Grants Fund	Harlan County Detention Center Bond Sinking Fund	E-911 Fund	Harlan County Justice Center Corporation Bond Sinking Fund	Nonmajor Funds
ASSETS							
Cash and cash equivalents	\$ -	\$ -	\$ 113,035	\$ 704,679	\$ 493,033	\$ 6,015	\$ 1,316,762
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 113,035</u>	<u>\$ 704,679</u>	<u>\$ 493,033</u>	<u>\$ 6,015</u>	<u>\$ 1,316,762</u>
Fund Balances							
Unreserved:							
Designated							
Special Revenue Funds	-	-	113,035	-	493,033	-	606,068
Debt Service Funds	-	-	-	704,679	-	6,015	710,694
Total fund balances	<u>-</u>	<u>-</u>	<u>113,035</u>	<u>704,679</u>	<u>493,033</u>	<u>6,015</u>	<u>1,316,762</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 113,035</u>	<u>\$ 704,679</u>	<u>\$ 493,033</u>	<u>\$ 6,015</u>	<u>\$ 1,316,762</u>

Harlan County Fiscal Court

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental

For the year ended June 30, 2007

				Harlan County Detention Center Bond Sinking Fund		Harlan County Justice Center Corporation Bond Sinking Fund	Total Nonmajor Govt. Funds
	Jail Fund	State Grants Fund	Federal Grants Fund		E-911 Fund		
Revenues							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 356,938	\$ -	\$ 356,938
Intergovernmental	226,553	-	-	-	-	671,010	897,563
Charges for services	71,425	-	-	-	-	-	71,425
Miscellaneous	1,960	-	-	-	75	-	2,035
Interest	-	-	2,271	17,684	479	764	21,198
Total revenues	<u>299,938</u>	<u>-</u>	<u>2,271</u>	<u>17,684</u>	<u>357,492</u>	<u>671,774</u>	<u>1,349,159</u>
Expenditures							
Portection to persons and property	1,015,312	-	-	-	229,043	-	1,244,355
Debt service	-	-	-	506,194	-	669,009	1,175,203
Capital Projects	132,855	-	-	-	-	-	132,855
Administration	273,736	-	-	6,589	7,579	2,055	289,959
Total expenditures	<u>1,421,903</u>	<u>-</u>	<u>-</u>	<u>512,783</u>	<u>236,622</u>	<u>671,064</u>	<u>2,842,372</u>
Excess (deficit) of revenues over expenditures before other financing sources (uses)	<u>(1,121,965)</u>	<u>-</u>	<u>2,271</u>	<u>(495,099)</u>	<u>120,870</u>	<u>710</u>	<u>(1,493,213)</u>
Other Financing Sources (Uses)							
Operating transfers in	1,121,965	-	-	500,000	-	-	1,621,965
Total other financing sources (uses)	<u>1,121,965</u>	<u>-</u>	<u>-</u>	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>1,621,965</u>
Net Changes in Fund Balance	<u>-</u>	<u>-</u>	<u>2,271</u>	<u>4,901</u>	<u>120,870</u>	<u>710</u>	<u>128,752</u>
Fund balance - Beginning	<u>-</u>	<u>-</u>	<u>110,764</u>	<u>699,778</u>	<u>372,163</u>	<u>5,305</u>	<u>1,188,010</u>
Fund balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 113,035</u>	<u>\$ 704,679</u>	<u>\$ 493,033</u>	<u>\$ 6,015</u>	<u>\$ 1,316,762</u>

Gaw & Associates, PLLC
Certified Public Accountants

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Harlan, Kentucky 40831
(606) 573-5300
tagcpa@harlanonline.net

The Honorable Joseph Grieshop, Harlan County Judge/Executive
Members of the Harlan County Fiscal Court

**Report On Internal Control Over Financial Reporting And On Compliance And Other
Matters Based On An Audit Of Financial Statements Performed In Accordance With
Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Harlan County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements and have issued our report thereon dated September 24, 2008. Harlan County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Harlan County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Harlan County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Harlan County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations listed as item 2007-01 and 2007-02 to be a significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, according, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe the significant deficiencies described above are material weaknesses.

Report On Internal Control Over Financial Reporting

For the Year Ended June 30, 2007

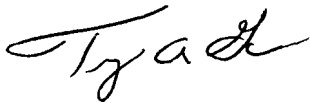
Compliance And Other Matters

As part of obtaining reasonable assurance about whether Harlan County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations as item 2007-03.

The County Judge/Executive's responses to the finding identified in our audit are included in the accompanying comments and recommendations. We did not audit the responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Department for Local Government, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Tyad", is written over a horizontal line.

Gaw & Associates, PLLC
September 24, 2008

Comments and Recommendations

Fiscal Year Ended June 30, 2007

Summary Schedule of Current Year Findings

2007-01 The County should properly use purchase orders on all required expenditures

The county did not use purchase orders for expenditures consistently and in some cases properly. We recommend the fiscal court properly complete purchase orders on all expenditures on all purchases.

County Judge/Executive Joseph A. Grieshop's Response:

A letter was sent to all department heads concerning use of purchase orders reminding each of the requirements.

2007-02 The County should maintain its schedule of assets

The county did not update its schedule of assets in a timely manner. We recommend that all purchases of assets purchased by the county immediately be posted to the asset register. It is further recommended that a schedule of assets purchased and disposed of by the jail canteen fund be submitted with its monthly report to the fiscal court.

County Judge/Executive Joseph A. Grieshop's Response:

A listing will be required to be given to the County on June 30 of each year.

County Jailer Curt Stallard's Response:

The jail commissary will comply with the requirement

2007-03 The County should obtain bids for all expenditures over \$20,000

The county did not advertise for bids for all expenditures over \$20,000. According to KRS 424.260 (2) the fiscal court should advertise for all items, other than professional services, involving an expenditure of more than twenty thousand dollars (\$20,000). We recommend the fiscal court comply with KRS 424.260 by advertising for all expenditures of \$20,000.

County Judge/Executive Joseph A. Grieshop's Response:

The County will be more diligent in reviewing project to ensure compliance with this requirement.

Summary Schedule of Prior Year Findings

2006-01 The County should obtain bid for all expenditures over \$20,000 (Not Corrected)

2006-02 The Fiscal Court should prepare a Schedule of Expenditures of Federal Awards (Not Corrected)

2006-03 The County should monitor compliance with the Davis-Bacon Act (Not Corrected)

2006-04 The County should require contractors to submit required Certification regarding Suspension and Debarment for work done on Federal Projects (Not Corrected)

2006-05 The County should comply with terms of the Grant Agreement with the Federal Emergency Management Agency (Not Corrected)

County Judge/Executive Joseph A. Grieshop's Response:

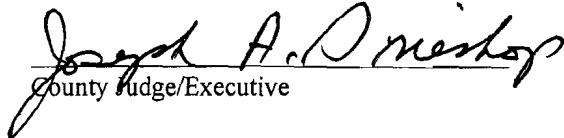
The County is now in compliance with all the above recommendations.

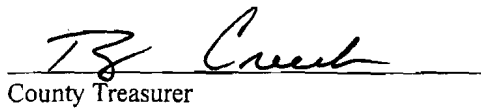
Harlan County Fiscal Court

Certification of Compliance – Local Government Economic Assistance and Development Programs

For the Fiscal Year Ended June 30, 2007

The Harlan County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


County Judge/Executive


County Treasurer